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SUBJECT: US-EU OFFICIALS CONVENE ENERGY COUNCIL'S SECURITY
WORKING GROUP

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¶1. (U) Summary: U.S. Special Envoy for Eurasian Energy Richard Morningstar and RELEX North America Director Alan Seatter co-chaired the first meeting of the U.S.-EU Energy Council,s security and markets working group in Brussels on November 18, 2009. The meeting established when and how the working group will meet and set forth the immediate priorities to be addressed. The group also held informal discussions on Ukraine, the Southern Corridor, Iraq, and Nigeria. End summary.

UKRAINE

¶2. (SBU) Faouzi Bensarsa, RELEX Energy Counselor, said there was good news and bad news to report on Ukraine. (Note: Although Seatter was designated the EU's "co-chair," the substantive discussion was led by Bensarsa. End note.) The Commission has established a technical coordination unit for rehabilitation of Ukraine's transit infrastructure, and Ukraine officials have been more transparent in this process.

Ukraine has also taken strides towards Energy Community membership and could be eligible for &political accession8 by the end of the year. Full membership would be dependent on a series of reforms, including a new gas law and the restructuring of Naftohaz. As for the bad news, Bensarsa said there has been little progress on &core reforms.8 He said Ukrainian officials continue to deny access to information and domestic institutional barriers inhibit the development of an integrated energy policy.

¶3. (SBU) Ambassador Morningstar said Ukraine needs to improve its energy efficiency and investment climate. The lack of FDI is a fundamental problem. Bensarsa said the Commission plans to coordinate with major donors next year on developing an energy efficiency action plan. The Commission is also working with the IFIs on a package in 2010, but stressed Ukraine must comply with the conditionalities set forth by the IFIs in July 2009. Both sides agreed that pressure must be brought to bear on Ukraine to reform its energy sector after the elections. In the meantime, Bensarsa asked the U.S. officials to support liberal access by Ukraine to its IMF SDR during December.

SOUTHERN CORRIDOR

¶4. (SBU) Ambassador Morningstar said securing a bilateral agreement between Turkey and Azerbaijan on gas price and transit is one of the most important issues for the U.S. and EU. He also recommended serious consideration be given to Southern Corridor alternatives such as Black Sea CNG and LNG and the White Stream pipeline project through Ukraine in order to put pressure on Turkey. He said the U.S. was prepared to conduct a feasibility studies on these projects if needed. Bensarsa said the EU had already commissioned two feasibility studies, one on White Stream and the other on Black Sea alternative. He said a pipeline through Turkey is the preferred option, but CNG is being considered. Ambassador Morningstar suggested the Commission look into Excelerate's vessel-based gasification technology. He also mentioned that Uzbekistan is interested in supplying gas to Nabucco, and this could advance prospects for a Trans-Caspian pipeline. He said the Uzbeks are considering a \$10 billion project to supply gas to China, but could be swayed to ship its gas west if it could link to Nabucco for a lower price.

IRAQ, NIGERIA

¶5. (U) Bensarsa said there is a heightened interest in Iraqi gas now that the Nabucco IGA has been signed. He said the Commission would support a commercial deal with the Kurds and that such deals should go forward even without GoI consent. Ambassador Morningstar agreed that getting Iraqi gas to EU markets is a mutual objective and stressed the need for a coordinated approach. On Nigeria, the Commission recently launched a 700 million euro development package. A major objective of the package is to promote peace and security in the Niger Delta. Commission officials expressed concern about pending investment legislation. They said there are three different petroleum bills in circulation and are trying

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to determine which one is receiving the most serious consideration. European oil companies are concerned about the inconsistent signals.

NEXT STEPS

¶6. (U) Seatter agreed to draft a work plan outlining the working group's objectives for 2010. Ambassador Morningstar said the most pressing concern is Ukraine, followed by Russia, and the Southern Corridor. He also suggested Iraq and Nigeria be taken up. Bensarsa concurred and asked that international governance, a natural gas OPEC8 and Venezuela and Brazil also be included. Seatter noted that discussions on Ukraine are sensitive for the Europeans and should be held "informally." Both Ambassador Morningstar and Seatter agreed that the working group should remain flexible and "meet when necessary," including by video conference. They agreed that the co-chairs from all three working groups should meet via video conference by early January at the latest to assess progress on the Energy Council.

Kennard

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